

BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF WASHINGTON

In the Matter of the Application)
regarding the Conversion and)
Acquisition of Control of Premera Blue)
Cross and its Affiliates.)
) No. G 02-45

PUBLIC HEARING
BEFORE INSURANCE COMMISSIONER KREIDLER
December 16, 2003
at
Hampton Inn
3985 Bennett Drive
Bellingham, Washington

Taken Before:
SUE E. GARCIA, CCR, RPR
Certified Court Reporter
of
CAPITOL PACIFIC REPORTING, INC.
2401 Bristol Court S.W.
Olympia, WA 98502
360.352.2054
e-mail: capitol@callatg.com
www.capitolpacificreporter.com

I N D E X

	PAGE
Mike Kreidler - Insurance Commissioner	3, 33
Public Comment	
Dr. Gary Goldfogel	11
Dr. Daniel Austin	14
Mr. Ron Snyder	15
Mr. Scott Rhine	18
Dr. Julie Komarow	22
Dr. Hugh Maloney	25
Ms. Connie Foulk	29

P R O C E E D I N G S

(6:16 p.m., December 16, 2003)

COMMISSIONER KREIDLER: Good evening. My name is Mike Kreidler. I'm the Washington State Insurance Commissioner. And welcome to this hearing. The purpose of the hearing is to hear about Premera's proposal to convert to a for-profit company. This is an Office of the Insurance Commissioner Case No. G 02-45. And as I said, the purpose here is to take testimony from the public relative to Premera's proposal.

Let me begin by introducing the parties. Over here to my right you see Tom Wolfendale, who is outside counsel to Premera. Next to him you see Yori Milo, who is the executive vice president and chief legal counsel and public policy officer for Premera. And the OIC staff is represented by Jim Odiorne, who is Deputy Commissioner for Company Supervision. And Ele Hamburger, who is here representing the intervenors and -- in her capacity as part of Premera Watch; is that correct?

MS. HAMBURGER: Yes, that is.

COMMISSIONER KREIDLER: I would also like to introduce Gubby Barlow who is here, who is the president and CEO of Premera. Also participating here tonight to my left we have Christina Beusch, who is assistant attorney general,

1 who is assigned to my office as my counsel. Further, over
2 there you have Sue Garcia, who is the court reporter. And
3 standing ably at the door over here to my left you see Bill
4 Ripple and Scott Schoengarth from public affairs in the
5 Insurance Commissioner's office.

6 What I would like to do now is just briefly discuss kind
7 of an update of where we're at in Premera's application, and
8 following that the procedures for tonight's hearing.

9 Premera filed its -- what is referred to as a Form A
10 filing with the Office of the Insurance Commissioner in
11 September of 2002. They were asking for approval to convert
12 to a for-profit company. If Premera was granted approval for
13 conversion, they would then be owned by their stockholders,
14 and it would be a publicly traded company. The value of
15 Premera would be put over to a foundation to fund health
16 needs of the public.

17 There are many laws that apply to a conversion, but the
18 one that is the primary law which we operate under is the
19 Holding Company Act, which is RCW 48.31B and C, which was
20 extended to cover companies like Premera, health-service
21 contractors, in the 2001 legislative session.

22 Early in 2001 I asked the legislature for authority to
23 include in the Holding Company Act health-service
24 contractors, and the legislation was adopted later that year
25 in 2001. It contains the procedures for a review of this

1 nature and the criteria for deciding whether to approve or
2 disapprove an application for conversion.

3 Let me tell you a little bit about the progress that's
4 been made since the initial filing was made by Premera back
5 in 2002. We've previously held four public meetings, early
6 after their application was filed, around the State of
7 Washington. Premera has also filed a considerable amount of
8 supplemental information in addition to their Form A filing
9 as it was originally introduced.

10 The Office of the Insurance Commissioner staff itself,
11 with the assistance of outside experts, have literally
12 reviewed tens of thousands of documents. And I proceeded to
13 also grant intervenor status to several organizations, the
14 Washington State Medical Association, the Washington State
15 Hospital Association, and the Premera Watch Coalition, among
16 others. And they -- I can assure you they've all been taking
17 a very active role in the proceeding.

18 We also have 17 different reports from a variety of
19 experts that have been submitted. These include accountants,
20 tax consultants, investment bankers, lawyers, and
21 health-policy consultants. If you'd like to access those
22 reports, I would suggest one of the most convenient ways
23 would be to go to the Office of the Insurance Commissioner's
24 website, which you can see right here in front of me, which
25 is www.insurance.wa.gov. All of the expert reports are

1 available on that website, and all of the hearing documents
2 that have been filed by the parties are also available there,
3 along with the 23 orders that I have issued up to this date.

4 We also have outside here a limited number of copies of
5 the executive summaries of those -- of those reports that
6 have been filed if you'd like to have a copy or would like to
7 peruse them.

8 As you can well imagine, this activity has generated a
9 fair amount of information, and it has been publicized in the
10 media, particularly in newspapers. This case, I want to
11 reassure you, is still very much in the information gathering
12 stages. I have not received a recommendation from staff, no
13 recommendations at this time, contrary to some published
14 reports to the contrary. And I can assure you we won't be
15 making -- I won't be making any decisions until the
16 appropriate time.

17 Tonight's hearing is part of an adjudicative hearing.
18 It is under the Administrative Procedures Act of the State of
19 Washington. It in some aspects is certainly much like what
20 would be analogous to a trial. I hear testimony, but I can
21 assure you it's much less formal. I serve as the judge as a
22 part of that process. And I will issue a decision after
23 we've completed the entire process and I have all of the
24 evidence that has been submitted and we've proceeded to kind
25 of the -- one of the final stages, which is the formal

1 adjudicative hearing.

2 The parties in this proceeding, I've introduced them.
3 The principal parties here would be OIC staff review team,
4 which is walled off virtually from me within my office
5 legally to be separate from me so that they interact
6 separately from me until they submit a response. Also you
7 have the other major party, obviously, Premera, which
8 submitted the application which is under review. And, of
9 course, the intervenors have a special status of being able
10 to interact on behalf of the public.

11 One of the things that's a little bit different than
12 what you might have seen earlier is that last week I issued
13 the 23rd order, which made it possible -- which extended
14 the time period that's involved here. It now -- we are now
15 looking at a process that will have a formal hearing that
16 will begin on March 29th of 2004, and that may last for up
17 to two weeks. And that's where the parties will offer
18 testimony and documents and testimony as the parties that are
19 involved in this case.

20 The times and location and details will be available for
21 that site -- for this formal hearing, will be available on
22 the OIC website. The final decision as in the schedule of
23 the 23rd order is scheduled now to be rendered no later
24 than June 7th for the final decision on Premera's
25 application.

1 As part of the public process, it wasn't required as a
2 part of the obligations for reviewing an application -- was
3 what I wanted to do which is to reach out to the public, and
4 that's what this meeting is about. I scheduled -- as I
5 mentioned, we did four meetings early in the process. This
6 is the fourth of an additional four meetings that we've been
7 conducting around the state.

8 Tonight is really your opportunity to provide testimony
9 and comments on -- and I want to tell you that those comments
10 will be treated as evidence. It is a part of the review as
11 to what is in the public's interest, and I will certainly
12 consider any information that you share with me tonight as a
13 part of my decision-making process.

14 Let me tell you a little bit about how this meeting will
15 work tonight. The testimony will be evidence in an
16 adjudicative hearing. Everyone who testifies tonight must do
17 so under oath. Everyone who intends to testify or will
18 testify, I will ask you to raise your hand and be sworn in.
19 I want to reassert to you that, again, this is informal, but
20 there are some formal aspects to it. You are certainly very
21 free to express your own personal opinions. You don't need
22 to worry about the fine points of law or proving particular
23 opinions that you might have. This is your opportunity to
24 offer testimony, and it will be your recommendation to me.

25 Because tonight's hearing is part of an adjudicative

1 hearing, the parties over here would have the opportunity to
2 ask questions. I've asked the parties to please show serious
3 restraint in doing that. They will have more than an ample
4 opportunity in the formal hearing to present their cases when
5 it takes place in March. However, if they do want to ask a
6 question, I ask them to knock on the table or wave at me to
7 make sure they get my attention so they do have that
8 opportunity.

9 All of the -- all of the testimony and remarks are being
10 recorded by our good court reporter, Sue Garcia, over here to
11 my left. I'd ask you, when you do speak, to speak slowly and
12 carefully so that she's able to record all of the information
13 accurately on your behalf. The transcript of this meeting
14 will be posted on the OIC website as soon as that information
15 is transcribed and available, and that won't take very long.

16 I'm going to stress that this is formal, but it's a very
17 informal process where you have an opportunity and really
18 your opportunity to express your opinions on Premera's
19 proposal conversion. You can talk about your experiences
20 with Premera or with healthcare in general and other
21 information that you might believe would be relevant to my
22 decision-making process.

23 Once everyone has been sworn in, I will call one person
24 at a time and the next person to testify. Actually, tonight
25 I'll just call the one person since we won't have that many

1 people testifying. I'll call the one person and ask you to
2 come up, take a seat over here to my left, and ask you to
3 state your name and also where you live.

4 Once we have finished people who have indicated a desire
5 to speak, there may be somebody else who did not sign up to
6 testify but would have an interest to testify. I would just
7 ask you to step outside and to sign up to testify. If you
8 haven't been sworn in, I will do so when you come up here.
9 But again, I would ask everybody here, unless somebody comes
10 in late, to -- if you think you might have an interest in
11 testifying to also be sworn in at that time so we wouldn't
12 have to repeat it after we've gone through the individuals
13 who signed up.

14 At this point I'm ready to do the swearing in. So I
15 would ask everyone who wishes or might wish to testify to at
16 this time raise their right-hand.

17
18 GARY GOLDFOGEL, M.D., DANIEL AUSTIN, M.D.,
19 RON SNYDER, SCOTT RHINE,
20 JULIE KOMAROW, M.D., CONNIE FOULK,

21
22 having been first duly sworn,
23 testified as follows:

24
25 COMMISSIONER KREIDLER: Thank you. And now I will
call the first name on the list, and we'll begin the hearing.
And, Gary, since you were the first one here, Gary, Dr. Gary
Goldfogel, just takes a second for me to say it.

1 DR. GOLDFOGEL: It's taken me years to get it
2 right.

3 COMMISSIONER KREIDLER: You can be the first person
4 to speak. And again, just state your name and where you live
5 for the record, please.

6 DR. GOLDFOGEL: Thank you, Commissioner Kreidler.
7 My name is Gary Goldfogel. I reside here in Bellingham. I'm
8 a practicing pathologist and the county's medical examiner,
9 and I'm the current president of the Whatcom County Medical
10 Society, former vice president of the Washington State
11 Medical Association.

12 I'm here to speak against Premera's request to convert
13 to a for-profit entity. If Premera is permitted to convert
14 to a for-profit company, its focus will shift from making
15 health insurance available to Washingtonians to making a
16 profit for its investors. That's what a company must do.
17 That shift will have far-reaching negative effects on
18 patients, on employers, and on the physician community.
19 Critically needed services, including women's health,
20 pediatrics, and care to older patients are put at risk as
21 these services tend to be costly for health insurers, that
22 is, unprofitable.

23 Physician practices already shoulder hefty
24 administrative burdens in terms of staff labor and those
25 substantial costs when attempting to obtain Premera's

1 authorization for medically necessary services. Clearly,
2 Premera as a profit-making company would seek to create
3 barriers to access, such as making the process for obtaining
4 permission for care a more daunting exercise.

5 I would also like to question Premera's above-average
6 executive pay and speculate that salaries, bonuses, and
7 insurance administrative costs would spike higher if the
8 company is traded on Wall Street. It is my understanding
9 that Premera made on the order of \$36 million in operating
10 profits on \$2.6 billion in revenues last year. But where's
11 the money coming from that funds this conversion? I expect
12 it's coming from reserves withheld from policyholders, a
13 questionable practice to say the least.

14 Physician practices, specifically, would suffer under
15 Premera's new profit-oriented mission. The reimbursement
16 rates that are paid do not cover the cost of services or the
17 administrative costs borne by the practices. Many physicians
18 already see the viability of their practices at risk. Should
19 Premera be allowed to become a for-profit business, that
20 viability could be further jeopardized. Some practices might
21 close, and patients and our healthcare system would suffer.

22 The ability of physicians' practices to negotiate with
23 Premera is not a level relationship given Premera's share of
24 the insurance market, and in this community that's
25 substantial. But by becoming a for-profit company, the fear

1 is that Premera will grind down physicians' practices still
2 further through worsening reimbursement rates and unfavorable
3 contract terms as Premera searches out ways to make a profit.
4 The conversions in other states have been disastrous to
5 reimbursement schedules. Premera's profit status would raise
6 rates for policyholders and reduce payments to doctors,
7 clinics, and hospitals.

8 The North Puget Sound region would see devastating
9 effects from Premera's becoming a for-profit company. Our
10 region would see its physicians practices put at risk?
11 Patients in lower income brackets and those with significant
12 health problems would also be at risk. Those patients are
13 not desirable to insurance companies from an actuarial point
14 of view. Premera would undoubtedly consider a departure from
15 Medicaid and state sponsored programs as we go forward.

16 In closing, I oppose Premera's proposed conversion as
17 physicians' practices will suffer, our region's ability to
18 maintain its network of physicians and our healthcare
19 infrastructure would be put in jeopardy. Premera will owe
20 its allegiance to its investors, while potentially
21 sacrificing the healthcare needs of Washingtonians and
22 eroding the healthcare delivery system.

23 Thank you for the opportunity to speak.

24 COMMISSIONER KREIDLER: Thank you, Doctor.
25 Appreciate your testimony.

1 Let's see. Dr. Dan Austin.

2 DR. AUSTIN: My name is Daniel Austin. I'm a
3 family physician here in Bellingham and also reside here in
4 Bellingham. I am in a small group practice. I am a former
5 president of the Washington Academy of Family Physicians.

6 I before you today to speak in opposition to the Premera
7 conversion to a for-profit insurer for the following reasons:

8 The likely possibility that Premera would raise premiums
9 to satisfy investors and thusly put a significant added
10 burden on the healthcare costs paid for by consumers and
11 employers;

12 The strong possibility that the same investor pressures
13 would result in contracting practices resulting in decreased
14 provider reimbursement, causing major detrimental effects on
15 the delicate healthcare market. As family physicians in
16 primary care, the financial viability of many of our
17 practices is quite vulnerable right now. Even minimal
18 decreases in reimbursement could seriously impact the
19 availability of an adequate provider network for the citizens
20 of Washington state, especially in primary care and in our
21 rural areas.

22 Significant concerns about how the potential acquisition
23 of Premera by an out-of-state insurer, such as Anthem, might
24 effect those same contracting practices;

25 The prospect that potential financial gain for Premera's

1 executives spurred their decision to seek the conversion and
2 honest doubts about whether Premera as part of its conversion
3 would transfer the full fair-market value of the company into
4 a new nonprofit foundation as required by law.

5 In summary, I believe the effect of the conversion of
6 Premera to be catastrophic and would potentially drive rural
7 providers out of those markets and cause a loss of access for
8 consumers at a time when the state's safety net is stretched
9 to the breaking point.

10 Everyone but Premera, including the OIC experts, seems
11 to agree that Premera's plan is not in the public interest.
12 It is obvious that consumers, patients, hospitals, and
13 healthcare providers will be harmed by any such conversion.
14 Commissioner Kreidler, I urge you to protect healthcare
15 workers, consumers, and hospitals and deny Premera's
16 application to convert.

17 Thank you for hearing my testimony tonight.

18 COMMISSIONER KREIDLER: Thank you, Dr. Austin.

19 Ron Snyder.

20 MR. SNYDER: Good evening. My name is Ron Snyder.
21 I'm a resident of the Everson area in Whatcom County. I am
22 unemployed; in other words, I'm retired. I'm an
23 ex-public-health employee. And I have no pro or con position
24 on the Premera application.

25 I do -- I am familiar with some of the issues raised by

1 some of my colleagues that relate to physician reimbursement,
2 lack of support to hospitals in rural communities, executive
3 pay. And I don't -- I don't have data that shows that to be
4 true. Although, I have not investigated that either. It
5 seems to me that would be easily available. These kind of
6 conversions are not unknown in this country any longer Empire
7 in New York, the North Carolina dropped out recently, and
8 there are others as well.

9 It seems to me that it's very important for your office
10 to make informed decisions based on some data that's
11 substantial that holds water rather than speculation. It
12 seems to me, too, that if there are uncertainties around
13 physician reimbursement, which I think is critical, and rural
14 hospital viability, that that's something that your office
15 ought to look at seriously. And we hear words "negotiation."
16 Why can that not be a part of a negotiations, some assurance
17 that services will continue to be available?

18 I have a very, very high-risk daughter in Oregon who had
19 to travel 150 miles one way for specialized OB care. And
20 I've already heard that in Oregon a number of hospitals have
21 closed because of the fiscal picture. And I know that
22 Premera is in Washington and Alaska, but I think some of the
23 same issues probably relate or pertain are present in
24 Washington as well.

25 But I guess my encouragement is to use data, to use the

1 experience of others, to not fall into people's fears and
2 speculation in making some of the decisions that are going to
3 be before you. Look at what's available.

4 If, in fact, the Premera conversion is approved, I know
5 that there's the intent to establish a foundation with some
6 of the assets, that -- well, I don't know the correct
7 terminology -- there will be a foundation established. And I
8 would encourage the Commissioner's office to also look at
9 that, both the structure and some of the background that goes
10 into establishing it, in thinking about public health.

11 Public health gets shortchanged repeatedly by medical
12 care, and yet we're reading about flu, death with flu. We're
13 reading about increased tuberculosis. We're reading about
14 recurrence of other strains of diseases. We are looking at
15 environment and health. That's public health. So I would
16 ask that your office take a good look, you know, at some of
17 the science and some of the data that's known around public
18 health and some of the resources that are needed.

19 I can talk forever because I talk forever, but that's my
20 comments for now. Thank you very much.

21 COMMISSIONER KREIDLER: Thank you very much,
22 Mr. Snyder.

23 Let me -- Mr. Snyder touched on it. Let me just mention
24 that, relative to the issue of a foundation, that's an entity
25 that would be created if approval for conversion were to be

1 granted. Our office will play a very active role in
2 determining the appropriate valuation of the assets that
3 would be transferred to a foundation. But at the same time
4 the actual set-up of a foundation, its activities, how it
5 would be structured, largely rests with the Washington State
6 Attorney General. So we have a very close working
7 relationship if, in fact, approval for conversion is granted.

8 At that point then we work very closely with the
9 Attorney General in taking the next steps of going through
10 the process of how a foundation -- one, how much money and
11 then the structure, which would be largely in the Attorney
12 General's ballpark, just to give you some idea relative to a
13 foundation.

14 I can also assure you that no decision will be made
15 until we've had ample opportunity to review all of the
16 information that has been submitted or testimony that has
17 been given so that we make sure that all of the interests of
18 the public are fully visited as a part of this deliberative
19 process.

20 Next person to call upon would be Scott Rhine. Scott,
21 if you'd just have a seat up here, please.

22 MR. RHINE: Good evening, Commissioner Kreidler.
23 My name is Scott Rhine. I'm an administrator and CEO at
24 Whidbey General Hospital. I've served in this capacity since
25 September of 1998, after serving a similar capacity in a

1 public district hospital in the state of California for 11
2 years.

3 Having been recently elected as president of the
4 Northwest Hospital Council, I'm representing tonight those 14
5 hospitals.

6 I believe that most healthcare is a local issue. Starts
7 with the individual, and then when we as individuals need
8 further assistance with a healthcare problem, we see others
9 to assist in diagnosis and treatment. Capabilities to
10 diagnose and treat have improved over the last 50 years, and
11 the capabilities of technology have made marvelous progress
12 and given most people the opportunity to experience better
13 health and longer lives. And yet, we constantly face the
14 issue of technology and capability outstripping our ability
15 to pay for these services for everyone. That's the end of my
16 philosophical statement.

17 Well, there are many important healthcare issues that
18 are continuing to be addressed. The issue tonight is one of
19 corporate autonomy, public good, and the impact on local
20 communities.

21 As a council, we would support the need and the rights
22 for entities to organize themselves to best accomplish their
23 mission and purpose. Each of our own organizations feel that
24 we have that right and responsibility. While we strongly
25 prefer that Premera Blue Cross not become for-profit publicly

1 traded company, we feel that Premera Blue Cross should have
2 the same right as any other corporation, as long as they do
3 so in a publicly responsible manner.

4 The question then is: How does Blue Cross change their
5 mission and organizational structure when they have relied on
6 public support for over 50 years? This decision should be
7 made carefully and with the input of legal and financial
8 experts. However, there also needs to be input such as we
9 are giving this evening, and ongoing input and participation
10 from those who have contributed over the years. Premera Blue
11 Cross should not control the foundation. We also believe
12 that the mission of the new foundation should be dedicated to
13 improving healthcare in local communities.

14 What will be the impact of the major for-profit
15 insurance company in the communities represented by the
16 Northwest Hospital Council? Hospitals, physicians, and other
17 healthcare providers have experienced some challenging years
18 in recent history. The operating margin for the 14 hospitals
19 in the Northwest Council went from over 4 percent in 2001
20 down to less than 1 percent in 2002. Most of the smaller and
21 rural hospitals are having even greater difficulty
22 maintaining positive operating margins. Whidbey General, for
23 example, had a negative margin last year. We do not believe
24 that Premera Blue Cross's conversion to a for-profit
25 organization will benefit local communities based on the

1 information that is available.

2 Having worked for a for-profit healthcare company in the
3 past, I know that their primary motivation has to be their
4 financial shareholders. This is usually not considered over
5 the long run, but in quarterly drives for better earnings.
6 We do not believe the conversion to a for-profit status will
7 lower healthcare costs in the communities that we serve. We
8 see further emphasis on bottom-line results and higher
9 premiums for employers and employees in order to produce
10 expected investment returns.

11 All of the hospitals in the Northwest Council are either
12 nonprofit or public hospital districts. Most hospitals in
13 the state of Washington are unable to provide services in the
14 same manner as for-profit healthcare companies. As
15 hospitals, we serve the patients in our communities
16 regardless of the patients' ability to pay.

17 As healthcare costs go up, fewer people will have the
18 ability to purchase healthcare coverage. We do not believe
19 that Premera's conversion will improve access to healthcare.
20 In fact, it may jeopardize further some of the public
21 programs they are participating in, especially in some
22 geographic locations. We are not aware of any provisions
23 proposed by the new foundation to increase access for those
24 unable to purchase healthcare coverage.

25 Finally, we do not believe that the quality of

1 healthcare in our local communities will be improved through
2 a for-profit conversion by Premera. Quality is improved
3 through systematic planning and evaluation and follow-up in a
4 collaborative effort. The availability of resources also
5 plays an important role in improving quality. Again, we do
6 not see increases in resources or better collaborative
7 efforts through a conversion to a for-profit Premera.

8 With these reasons, we feel at this time that the Office
9 of the Insurance Commissioner should reject their application
10 and in turn have them work on measured healthcare issues that
11 currently exist in a collaborative effort with hospitals,
12 physicians, and other interested parties. Thank you.

13 COMMISSIONER KREIDLER: Thank you very much,
14 Mr. Rhine.

15 Next I would like to call on Dr. Julie Komarow.
16 Hopefully I'm somewhat close on that.

17 DR. KAMAROW: You're close.

18 COMMISSIONER KREIDLER: Good.

19 DR. KAMAROW: I'm Julie Komarow, a family practice
20 doctor currently in Covington, Washington. I appreciate the
21 chance to bring some testimony to you, Mr. Kreidler.

22 I'm glad that you emphasized how informal this process
23 is suppose to be because I was up most of the night doing a
24 baby delivery. And because I was not in town last week to
25 discuss in front of you last week, I drove three hours to get

1 here from Covington, so I'll do the best I can.

2 I feel really strongly about this, and I tend to speak
3 in a more personal manner rather than a philosophical one. I
4 have two major concerns about the conversion. And I speak
5 very strongly against it. I've been a family practice doctor
6 in Washington for nearly 20 years. The first years were in
7 Everett, and I was, in the end, president of the Everett
8 Family Practice Clinic, which died eventually, which is why
9 I'm now in Covington.

10 Part of the reason that we became insolvent and had to
11 close was because of third-party-reimbursement issues. We
12 had the largest percent of Basic Health care, straight
13 Medicaid, and Healthy Options patients in Everett when we
14 closed. And I personally got to watch our nearly 20,000
15 patient population, which about 20 percent was in one of
16 those programs, have to dig around for different doctors.
17 And it was a very awful process to watch people go through.

18 And the people who are in the Medicaid -- different
19 Medicaid and state programs had a much more difficult time,
20 as you can imagine, finding physicians. And a lot of them
21 just wound up in the emergency room getting care for a long
22 time. I hope by now, two years later, a lot of them have
23 found homes. But what is important is they have to have a
24 insurance home to be able to belong to, and that conversion
25 would really threaten.

1 Secondly, one of the hardest things that we ever did as
2 a practice was to get angry enough at the poor reimbursement
3 that Aetna was offering us to refuse to negotiate with them.
4 And we shut down the part of our practice that saw patients
5 that were insured by Aetna. That was a terrible year. We
6 had patients that went away and found other doctors or didn't
7 get care. And then finally we negotiated a better contract
8 with Aetna; they were able to come back and see us again.

9 The reason I'm talking about Aetna is that if Premera
10 becomes a for-profit organization, then it's going to have a
11 much higher chance of becoming part of the national big
12 group. It's going to be doctors like me wrestling with
13 1800-pound gorillas rather than 800-pound gorillas, and they
14 will control a bigger and bigger part of the insurance
15 business in the state. It's going to be impossible or very
16 difficult for a practice to be able to say, "Your
17 reimbursement is so low that it will harm our viability to
18 stay with you. We aren't going to take your patients
19 anymore."

20 So those are the two things: The poorest of our
21 population need to have an insurance home, and doctors don't
22 need any bigger gorillas to fight against.

23 So thank you for letting me speak.

24 COMMISSIONER KREIDLER: Thank you very much,
25 Dr. Komarow.

1 Next, I would like to call Hugh Maloney. Do I
2 understand you didn't have an opportunity to take the oath?

3 DR. MALONEY: I did not.

4 COMMISSIONER KREIDLER: Let me administer it at
5 this time. If you would be kind enough it raise your
6 right-hand.

7
8 HUGH MALONEY, M.D., having been first duly sworn
 testified as follows:

9
10 COMMISSIONER KREIDLER: Thank you. And if you
11 would be kind enough just to state your name and where you're
12 from.

13 DR. MALONEY: I'm Jim Maloney. I'm a physician
14 from Kent, Washington, at this time. Commissioner Kreidler,
15 I appreciate the opportunity to present some information.

16 I speak for myself. I'm a general internist. I take
17 care of adults and adolescents. I've been in Washington
18 state practicing medicine for over 26 years. I have had a
19 variety of experiences in rural medicine. I've been in a
20 solo practice for 10 years. I was in a small group practice.
21 I've been in a large group practice in downtown Seattle.
22 Currently, I'm a clinic chief at one of the clinics for the
23 University of Washington Physician's Network, which we are
24 the largest primary care organization in the region. I'm
25 here to speak against Premera's conversion to a for-profit

1 entity.

2 I believe if Premera's permitted to convert to a
3 for-profit company, its focus will shift from making health
4 insurance available to Washingtonians to making a profit for
5 its investors. That shift will have far-reaching negative
6 effects on patients, employers, and physicians. I believe
7 critically needed services, including women's healthcare and
8 care to older patients, will be put at risk as those services
9 tend to be more costly for health insurers and, I believe,
10 unprofitable because of that.

11 Physicians' practices already shoulder very hefty
12 administrative burdens. Our costs for labor are going up in
13 our offices. And those substantial costs increase when
14 attempting to obtain Premera's authorization for what we
15 believe to be medically necessary services. Clearly, Premera
16 has a profit-making company would seek, I believe, to create
17 barriers to access, such as making that particular process
18 for obtaining permission a more daunting exercise.

19 I've been through this. It is very difficult, and it
20 adds to the cost of service. I believe the scope of coverage
21 would fall victim to the quest for profit. Premera would
22 offer less and less coverage for what I consider necessary
23 services while concurrently increasing premiums to folks such
24 as myself trying to purchase it.

25 I believe pediatric preventive service might also be

1 sacrificed. Patients would have to pay more out of pocket
2 for more limitations on benefits. And I believe we're
3 already seeing patients being disencouraged from seeking
4 needed medical care in a timely manner. And I think this
5 will end up with poorer healthcare status for citizens.
6 Employers who purchase health insurance would be paying
7 higher premiums, but I believe getting unhealthier employees.

8 Prescription drugs would be a target. Patients are
9 already having to pay higher out-of-pocket costs, and I
10 believe they're delaying -- we've seen evidence of this
11 already -- delaying their prescription purchases or doing
12 without medications altogether when they have to pay more out
13 of pocket.

14 I believe physicians' practices and my practice will
15 suffer if Premera's new profit-oriented mission is allowed to
16 go forward. The reimbursement rates paid now don't cover the
17 cost of services or many of the administrative cost borne by
18 our practices. Many physicians already see the viability of
19 their practices at risk. I believe should Premera be allowed
20 to become a for-profit business, that viability of practice
21 could be further jeopardized. I believe some practices would
22 close; patients and our healthcare systems would suffer.

23 The ability of physicians' practices to negotiate with
24 Premera is not a relationship with equals. Given Premera's
25 share of the insurance market, Premera -- if Premera becomes

1 a for-profit company, my fear is that they will grind down
2 physicians' practices still further. They'll do this through
3 worsening reimbursement rates, unfavorable contract terms, as
4 Premera searches for ways to make the necessary profit.

5 The North Puget Sound region would see devastating
6 effects of Premera's for-profit status. Our region would see
7 its physicians' practices put at risk. Patients in lower
8 income brackets and those with significant health problems
9 would also be at risk. These patients are not desirable to
10 insurance companies from an actuarial point of view; they
11 cost money. Premera would undoubtedly consider departure
12 from Medicaid and Basic Health programs.

13 In closing, I do oppose Premera's conversion. I think
14 our physician practices will suffer. I think our region's
15 ability to maintain its network of physicians and our
16 healthcare infrastructure would be put in serious jeopardy.
17 Premera will owe its allegiance to its shareholders' desire
18 for profit while sacrificing the healthcare needs of
19 Washingtonians and further eroding our already tenuous care
20 delivery system.

21 Commissioner Kreidler, thank you for the opportunity.

22 COMMISSIONER KREIDLER: Thank you, Doctor Maloney.

23 Dr. Maloney, was the last person to sign up. Is there
24 anybody who had an interest in testifying this evening and
25 had not signed up or would have an interest in signing up to

1 testify? We have one right here. If you would be kind
2 enough to -- do you want to sign her in right now, and then
3 if you could come up just so that we have a written record of
4 your testimony of your name for the record.

5 Did you have an opportunity to take the oath?

6 MS. FOULK: I did. I'm sorry I'm so casual. I sat
7 down at ten minutes to 6:00, read the newspaper, and saw the
8 ad, so I ran over here. So sorry I don't have texts like the
9 folks did, but I do have some comments I would like to make.

10 My name is Connie Foulk, and I'm from Bellingham. I'm
11 the HR manager at a local software company here in
12 Bellingham. We have 117 employees. We've been with Premera
13 for two years. Just paid a check to them today for \$46,000,
14 which represents one month's worth of premiums for our
15 company. So \$46,000 is a lot of money for us, you know;
16 extrapolate that times 12 months.

17 And for us insurance coverage is a major issue for a lot
18 of our employees, sometimes more important than just their
19 compensation. We have had people that, when we hire them,
20 it's important for them to know the type of benefits that we
21 offer them as far as medical and dental because to them
22 that's a priority for them. So when I talk about medical
23 with my employees, you know, our main gist is to give them
24 good quality coverage at fair amounts for them. Our company
25 just pays for the employee's portion, and so the -- the

1 employees pay for their dependents.

2 But my biggest problem when we go out each year to get
3 our quotes is we have no competitors. In Whatcom County
4 there's basically only three companies that I can even go to,
5 partly for the fact that we have 20 other employees that live
6 in other states besides the state of Washington. So it's
7 very difficult for me to hear that Premera is look at wanting
8 to go for-profit because I feel that it is going to impact
9 who we can go to.

10 Now, if I had 20 different companies that I could get
11 quotes from, I would feel like, "Have at it. You guys do
12 what you want," and I can go to someplace else." I don't
13 have that advantage. I have two other places I can go to at
14 this point.

15 Partly what I'm told by a broker is the fact that the
16 state of Washington has lots of covenants that make it -- I
17 guess our state is not as easy for different insurance
18 companies to come in and quote us. And so I guess I feel,
19 until our numbers improve where we have more competitors, we
20 can't afford to let Premera go out to do this other item that
21 they want to do.

22 We've seen increases. Two years ago it went up
23 17 percent. This last year it went up 21 percent. And my
24 best guess is that we've had -- in our particular company of
25 117 employees, we had two people that found out they had

1 cancer this year. We had another employee that is having a
2 foot amputated because of diabetes. And we have another
3 employee that ran off the road coming to work and suffered
4 three months' worth of not being able to come to work.

5 And I just know that when we get our quotes come
6 May 1st, it's going to be incredibly difficult for us to
7 maintain the same type of premium that we're paying right
8 now, which is \$288 a month for our employees.

9 Another thing that concerns me is one of my employees
10 came with a letter from an OB/GYN practice here in
11 Bellingham, a fairly large office, and the letter basically
12 said that they would were no longer going to be accepting
13 Premera as a carrier for the fact that they hadn't been able
14 to negotiate good rates with them. They already paid bottom
15 dollar. And when they sat down to negotiate, Premera said,
16 you know, "We're not going to pay you one penny more."

17 So as of January 9th of 2004, all of our patients that
18 go to this particular clinic will no longer be getting the
19 same coverage, or they're going to have to either go to
20 another doctor, or they're going to have to pay a lion's
21 share of that visit.

22 There's not a lot of women in this room. But when you
23 find an OB/GYN physician that you're comfortable with, you
24 don't want to move. And so some of my women employees that
25 work with me are feeling really concerned about this. And my

1 first reaction when I heard it was, "Oh, my gosh. We're
2 getting to the point where we've got to start conserving
3 those dollars because it's important for us to be able to
4 save up for our shareholders, as opposed to what's best for
5 the consumer, the people that are paying the premiums."

6 Also, the fellow that I mentioned that had the car
7 accident, it's been a battle for him to get his money paid to
8 the different services and the hospitals. And, you know, I
9 look at his family, and I'm thinking, "Oh, my gosh, you know,
10 they're just dealing with his recovery." His short-term
11 memory is slow. His motor functions are slow coming back.
12 It will be, you know, 6 to 12 months before he hopefully will
13 be back to 100 percent. But in the midst of this, they're
14 dealing with feeling like they're not getting their claims
15 serviced or getting their answers to the questions they've
16 posed.

17 So I feel that Premera has ample amount of people or --
18 I don't know. I guess I just feel that Premera -- for the
19 most part I think is a solid company. And I just hate to see
20 them change their focus to stockholders as opposed people
21 that are paying the bills. And again, in Whatcom County,
22 with us being very limited to the different insurance
23 companies that we can even go to, I just don't want to see
24 Premera change their mode.

25 I think that's all I have to say. Thank you for your

1 time.

2 COMMISSIONER KREIDLER: Thank you very much.

3 Again, Connie is the last person who signed up testify.
4 Is there anybody else?

5 Seeing no one else here indicating a desire to speak
6 this evening, I want to thank you all very much for coming
7 and offering your opinion, your view, and your concerns about
8 the issue before the Office of the Insurance Commissioner,
9 which is Premera's application to convert to a for-profit
10 company.

11 I will consider all of the testimony that was given as a
12 part of the official record, as a part of the adjudicative
13 hearing which we've conducted this evening. And there will
14 be the formal hearing coming up on March 29th, with the
15 final decision to be rendered no later than, according to the
16 23rd rule, by June 7th.

17 Again, thank you all very much for coming this evening
18 and helping me and helping your fellow citizens by
19 testifying.

20 This meeting is adjourned.

21 (Proceedings concluded at 7:05 p.m.)
22
23
24
25

C E R T I F I C A T E

I, SUE E. GARCIA, a duly authorized Court Reporter and
Notary Public in and for the State of Washington, residing at
Tacoma, do hereby certify:

That the foregoing proceedings were taken before me on
the 16th of December, 2003, and thereafter transcribed by me by
means of computer-aided transcription, that the transcript is a
full, true, and complete transcript of said proceedings;

That I am not a relative, employee, attorney, or
counsel of any party to this action or relative or employee of
any such attorney or counsel, and I am not financially
interested in the said action or the outcome thereof;

IN WITNESS HEREOF, I have hereunto set my hand and
affixed my official seal this December 18, 2003.

SUE E. GARCIA, CCR, RPR
WA Lic. No. 2781